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S E C R E T SECTION 01 OF 04 MADRID 002685

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TAGS: [EAID](#) [EINV](#) [EFIN](#) [PREL](#) [PARM](#) [ETTC](#) [KIPR](#) [SP](#)
SUBJECT: TREASURY DEPSEC'S MEETING WITH FOREIGN MINISTER
MORATINOS

Classified By: ECONCOUNS WHITNEY BAIRD PER 1.4 (B/D)

SUMMARY

¶1. (C) Foreign Minister Moratinos told Treasury Deputy Secretary Kimmitt October 19 that Spain strongly supports the

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Iraq Compact and that Madrid would transfer the 22 million dollars it had pledged for the Basra Children's Hospital within about one month. He also pledged Spanish support to interdict Iranian financing of terrorist groups. End Summary.

¶2. (C) Treasury Deputy Secretary Robert Kimmitt visited Madrid October 18-19 to discuss the Iraq Compact, efforts to interdict terror finance, and investment issues. The Deputy Secretary met with Foreign Minister Miguel Angel Moratinos,

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Deputy Interior Minister Antonio Camacho, National Security Advisor Carles Casajuana, MFA Counterterrorism Coordinator Angel Lossada, Secretary of State for Budget and Fiscal Matters Carlos Ocana, and groups of businessmen and bankers. This cable reports the meeting with the Foreign Minister. The other meetings will be reported septel.

IRAQ COMPACT

¶3. (C) Moratinos opened the meeting by stressing that notwithstanding U.S.-Spain "misunderstandings" on Iraq after the Zapatero,s Government's election (e.g., the 2004 withdrawal of Spanish troops from Iraq), Spain wants to "focus on the future" and has a "political commitment to help build a democratic, stable, and prosperous Iraq." The Foreign Minister underscored that Spain shares the U.S.'s commitment to Iraq and wants to work "hand in hand" with the U.S. on Iraq.

¶4. (C) Moratinos said Spain would offer political support to the Iraqi Government and would continue to support the efforts of the international community on Iraq. Spain's only caveat remains "no Spanish troops" in Iraq. Moratinos indicated that Spain continues to assist the Iraqi military and security forces (e.g., demining training) and had pledged

300 million USD for Iraqi economic and development assistance at the 2003 Madrid Donor's Conference.

15. (C) The Foreign Minister said Spain needed to review how it could help Iraq vis--vis the Iraq Compact and indicated that Spanish assistance would be disbursed via the World Bank and UNDP. He said Spain would emerge as the "fourth or fifth" leading European donor to Iraq. Moratinos reiterated Spain's commitment to provide 22 million USD to help construct the Basra Children's Hospital and said he had been "honored" to receive a letter from the First Lady thanking Spain for its contribution to the hospital. He said that Spain has still not finalized the transfer details for the monies but underscored Spain's political commitment to make this contribution.

16. (C) Injecting a cautionary note, Moratinos said Spain has other pressing priorities such as the Palestinians, Lebanon and stemming migratory flows to Spain. He also asked Kimmitt not to "forget that Spain does not play in Europe's second division" and suggested that Spain should be at the table when issues relating to Iran are discussed. He also cited Spain's troop contributions in Afghanistan and Lebanon and complained that "Spain never got public encouragement from the U.S." for agreeing to send troops to the UN's Lebanon PKO.

17. (C) Deputy Secretary Kimmitt began his remarks by noting that "Spain plays in the first division and that is why I am here." He said the U.S. appreciates Spain's important role in Lebanon and throughout the region. He acknowledged past differences with Spain on Iraq but agreed that both sides should focus on the future. Kimmitt said the 2003 Madrid conference had played an important role in channeling assistance to Iraq and that those pledges need to be delivered. Additional help is required and that help could be provided through the Iraq Compact process.

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18. (C) Kimmitt underscored that unlike Afghanistan, Iraq should be self-sufficient within five years, and that after five years, Iraq should need investment and not assistance. But political stability has to be achieved first. As a result, Iraqi PM Maliki has launched a three-step program to achieve security, reconciliation, and development. Maliki's new government approached the UN and World Bank to set up the Iraq Compact, through which it would pledge to implement certain economic reforms in return for five years of development assistance. Several successful precons have been held (e.g., Abu Dhabi, Singapore, and New York) and a further precon is scheduled for Kuwait City on October 31. Maliki is scheduled to be in Saudi Arabia discussing the possibility that the Iraq Compact closing conference could be held in that country in late November or early December.

19. (C) Kimmitt said the meeting in Kuwait should close the issue of the economic reforms that Iraq will undertake and that November would focus on donor strategy, including issues such as debt forgiveness, Kuwait reparations, and development assistance. He said Iraq will have a budget gap that it will need help closing. Steadily rising oil revenues should ensure that the gap is relatively small. He said the U.S. contribution vis--vis the Iraq Compact would likely focus on assistance to the Iraqi security forces and that others, perhaps including Spain, could focus on development and reconstruction efforts. Kimmitt said that Iraq will soon have enough oil revenue to pay for the day-to-day operations of the government but will still need help in providing the capital investment necessary to rebuild.

110. (C) Moratinos responded by saying that "Maliki is strong and is trying his best." He said that Spain agrees with the Iraq Compact approach outlined by Kimmitt and would determine its contribution once three things had become clearer: (a) the extent of Iraq's budget gap; (2) Iraq's

outstanding development/reconstruction priorities; and, (3) the availability of funds in Spain. The Foreign Minister then turned the floor over to de Laiglesia, who outlined Spain's current programs in Iraq.

¶11. (C) De Laiglesia said that Spain had already disbursed over 222.5 million USD of its 300 million USD pledge at the 2003 Madrid Donor's conference. (Note: 160 million was disbursed in 2003-04, and the remaining 62.5 million since 2005.) Much of the 62.5 million disbursed since 2005 was passed through EU programs and the UNDP's IRFFI program. The 77.5 million USD left (which is supposed to be disbursed by 2007) is in the form of soft loans (known as FAD credits in Spain). De Laiglesia explained that Spain has encountered two problems in trying to disburse the 77.5 million USD in FAD credits: (A) its inability to obtain necessary "sovereign guarantees" from the Iraqi Government; and, (B) the reluctance of Spanish businessmen to undertake projects in Iraq (since the credits are supposed to be used by Spanish contractors). Moratinos interjected at this point that Spain was considering having Spanish companies use Turkish or Jordanian sub-contractors to overcome the reluctance of Spanish companies to operate in Iraq. Finally, De Laiglesia noted that the Spanish Agency for International Cooperation (AECI) for which he is the number two ranking official) has a bilateral program in Iraq which provides roughly 7 million euros a year (channeled bilaterally as well as through NGOs and UNDP) to good governance, democracy, and gender programs.

¶12. (C) De Laiglesia said that Spain's 22 million USD contribution to the Basra Children's Hospital would be channeled via the UNDP/IRFFI/Health Cluster, with a special earmark for the hospital. He said that for "bureaucratic reasons," this was the only transfer route that worked for Spain. He said that just last week, Spain and the UNDP signed the document that would allow the UNDP to receive these funds. He indicated they would be transferred after Spain overcame several other bureaucratic hurdles, including formal approval by the Spanish Cabinet. After the Ambassador pressed for a specific date vis--vis the fund transfer, De Laiglesia said he hoped the transfer would take place in about one month's time and Moratinos indicated that he would "try to speed it up."

¶13. (C) Moratinos requested that the USG intercede with the Iraqi Government to help obtain the sovereign guarantees that

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would permit Spain to disburse the remaining 77.5 million euros in FAD credits. Kimmitt said we would do so and then turned the conversation toward debt relief, noting that Iraq could never move from aid to investment without enough debt relief to permit future access to capital markets. He said the U.S. had forgiven 100 percent of Iraq's debt to the USG. Moratinos said Spain had forgiven 80 percent of Iraq's 482 million euro debt to the GOS.

¶14. (C) Kimmitt told Moratinos that EC Commissioner for External Relations Ferrero-Waldner had told him earlier in the week that EU assistance to Iraq would decline in 2007 and totally disappear by 2010. He stressed to Moratinos that this would send a bad political signal regarding the EU's commitment to Iraq. We all want to move from assistance to investment, Kimmitt added, but now was not the time to begin cutting assistance. Moratinos said that multiple crises had left the EC short of funds, but he agreed that cutting EU assistance to Iraq just as the Compact was being launched would be a bad sign and that he would argue against it. Finishing the Iraq part of the conversation, Moratinos told Kimmitt "don't worry, we will continue to support Maliki and we will not disengage."

IRAN TERROR FINANCE

¶15. (S) Moratinos turned the conversation toward a paper that Kimmitt had sent to him the previous day (documenting Iranian Government financing of terrorist groups through Bank Saderat). Moratinos said Spain would fully cooperate in efforts to cut off terrorist group access to financial flows. He asked how Spain could help in this particular case, as the Iranian bank in question had no branch in Spain. Kimmitt said this Iranian bank could have a correspondent relationship with a Spanish bank. Moratinos said he would look into this.

¶16. (S) Kimmitt said he had provided the paper to Moratinos mostly as a courtesy, since he had also given it to GOS officials at the Interior Ministry and Bank of Spain. He described the over-arching issue as legal and regulatory vice a UNSC sanctions obligation. He said the USG was not trying to be extra-territorial but merely wanted to share with its close Allies information pertaining to the financing of terrorism and weapons proliferation. Kimmitt said that we would continue to provide this information via standard intelligence and law enforcement channels, but that he also wanted to sensitize GOS policymakers to the importance of these issues.

¶17. (S) Kimmitt said that "Spain has not been a problem in this area" and that "Spain has a very good record" in combating terrorism finance. But the U.S. believes that efforts to close down traditional routes of Iranian Government financing to terrorist groups could lead Iran to develop new routes and mechanisms. Iran may turn to Latin America and Venezuela in particular and the U.S. is well aware that Spanish banks have an important presence in this region. As a result, Kimmitt had just met with key Spanish bankers to provide a sanitized explanation of our concerns.

¶18. (S) Moratinos said he could "reassure totally" that the GOS will be helpful on efforts to interdict terror finance. He said that on his first trip to the U.S. as Foreign Minister, he was told that Hezbollah was broadcasting its TV station (&al-Manat8) in Latin America through the Spanish-controlled HISPANSAT satellite. Moratinos said he cut off this access upon his return to Spain. He said Spain was "ready, active and aggressive" vis--vis terror finance and would use its influence in Latin America to this end. He asked Kimmitt to "just let us know of problems and we will help." Kimmitt closed the conversation by noting that Spain has ties to Iran that the U.S. does not and that action by Madrid to make clear to Iran that its financing of terrorist groups, as well as its move to nuclear weapons, is simply unacceptable and would have a strong political effect.

¶19. (U) Meeting attendees:

U.S.) Ambassador Aguirre, Treasury Deputy Secretary

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Kimmitt, ECONOFF Forder (note taker), ECONOFF Schonander, EB Financial Economist Alexei Monsarrat.

Spain - Foreign Minister Miguel Angel Moratinos, Secretary General (U/S equivalent) for International Cooperation Juan Pablo de Laiglesia, Director General (A/S equivalent) of Foreign Policy for Europe and North America Jose Maria Pons, Foreign Minister's Chief of Staff Javier Sancho Velazquez, Foreign Minister staffer Laura Garcia Gomez (note taker).

¶20. (U) Deputy Secretary Kimmitt has cleared this cable.

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